CITY OF NEWPORT BEACH
LAND USE ELEMENT ADVISORY AMENDMENT COMMITTEE AGENDA

Newport Beach Central Library
Friends Room
1000 Avocado Avenue
Tuesday September 3, 2013
3:30 p.m. – 5:00 p.m.

Committee Members
Ed Selich, Councilmember (Chair)
Nancy Gardner, Council Member
Kory Kramer, Planning Commissioner
Larry Tucker, Planning Commissioner
Craig Batley, Member At-Large
Michael Melby, Member At-Large
Patricia Moore, Member At-Large
Jim Walker, Member At-Large
Paul Watkins, Member At-Large

Staff Members
Kim Brandt, Community Development Director
Brenda Wisneski Deputy Community Development Director
Gregg Ramirez, Senior Planner
Leonie Mulvihill, Assistant City Attorney
Tony Brine, Traffic Engineer
Woodie Tescher, The Planning Center | DC&E (consultant)
Marissa Aho, The Planning Center | DC&E (consultant)

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1) **CALL MEETING TO ORDER**

2) **APPROVAL OF MINUTES**
Recommended Action: Approve August 20, 2013 Meeting Minutes (Attachment 1)

3) **ECONOMIC ANALYSIS FOR AIRPORT AREA**
   a. Airport Area (Attachment 2)
Recommended Action: Determine if additional residential capacity is warranted.
   b. Mariners' Mile (Attachment 3)
Recommended Action: No action required.

4) **OTHER AREAS**
Recommended Action: Identify additional land use changes, as appropriate.

5) **OUTREACH BRIEFING**
   a. September 9th Informational Meeting
   b. Other
Recommended Action: No action required.

6) **NEXT STEPS**

7) **PUBLIC COMMENTS ON NON-AGENDA ITEMS**

8) **ADJOURNMENT –** *Next Meeting September 17, 2013 at 3:30pm*

This Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Committee's agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Committee and items not on the agenda but are within the subject matter jurisdiction of the Committee. The Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible (949-644-3005 or cityclerk@newportbeachca.gov).

Attachment No. 1

Meeting Minutes

City of Newport Beach
Land Use Element Amendment Advisory Committee Minutes

Date:	August 20, 2013
Location:	Newport Beach Central Library – 1000 Avocado Avenue Friends Room
Members Present:	Edward Selich, Council Member (Chair) Nancy Gardner, Council Member Kory Kramer, Planning Commission Larry Tucker, Planning Commission Craig Batley, At-Large Paul Watkins, At-Large
Members Absent:	Michael Melby, At-Large Patricia Moore, At-Large Jim Walker, At-Large
Staff:	Brenda Wisneski, Deputy Community Development Director Gregg Ramirez, Senior Planner Leonie Mulvihill, Assistant City Attorney Dave Webb, Public Works Director Tony Brine, Traffic Engineer Woodie Tescher, The Planning Center|DC&E (consultant) Marissa Aho, The Planning Center|DC&E (consultant) Marlie Whiteman, Urban Crossroads (consultant)

I. Call Meeting to Order

The meeting was called to order at 3:33 p.m. by Acting Chair Gardner. Chair Selich is running late.

II. Approval of Minutes

Motion (Watkins) to approve minutes as augmented by August 6th audiotape with minor corrections submitted by Jim Mosher as "August 20, 2013 LUEAAC Agenda Item Comments".

III. Traffic Findings of Potential Land Use Change Areas

Marlie Whiteman and Gregg Ramirez presented the latest list of staff recommended potential land use change areas to potentially be studied in the EIR and the corresponding ADT (Average Daily Trips) associated with each change. These changes included the following four updates:

- Gateway Park
- Harbor Day School
- The Bluffs
- Harbor Vies Center

Gardner asked if staff had communicated with the owners of these properties and if they had objections. Ramirez indicated that staff had reached out and that there were no objections.

Whiteman, Traffic Consultant for the City, reviewed the table (Attachment 2) with the Committee. She reported that the recommended potential land use change areas resulted in a reduction of 342 ADT citywide. Gardner confirmed that these numbers will be used for the study and that the Committee reserves the right to support the changes in the future, or not.

Chair Selich arrived.

The Committee discussed the potential changes and what the traffic study would be addressing. Tucker recommended moving forward with the current list and confirmed that the Committee can study more and recommend less, but can't study less and recommend more.

Gardner asked if the traffic analysis will look at mitigations/improvements associated with the trips. Brine and Tescher confirmed that the traffic study will include mitigation/improvement recommendations.

Committee approved recommendation to move forward

IV. Other Area Updates

Ramirez and Tescher provided additional area updates.

a. Lido Marina Village

Ramirez reported, in response to Commissioner Kramer's question about the development potential of Lido Marina Village, that much of Lido Marina Village has been developed with almost double floor area than currently permitted by the General Plan for commercial development.

Some opportunity for additional mixed use, and proposed projects including the hotel proposed at the City Hall Site and the Lido Villas proposed 23 detached Townhomes.

Gardner asked, since this area is already overbuilt, do we change are approach?

Tescher discussed how the development community would likely be interested in additional density, which would cause the City to also need to look at the development capacity of this area, which could include a discussion of increasing height. He explained that retail typically works on the ground floor – so any question about adding density leads to a question about what are you adding density for.

Wisneski suggested that anticipated development projects may lead to other properties making improvements organically.

Selich encouraged the Committee to look the guidelines and other relevant documents when discussing policy recommendations for Lido Marina Village.

Batley brought up the 32nd street fronting properties (adjacent from the City Hall site) – including into the same policy of being permitted to rebuild up to the existing FAR/Density – the alley behind is a logical demarcation line.

This issue will be discussed by the Committee further when the policies are reviewed.

b. Mariner's Mile

Tescher responded to the questions made by the Committee at the last meeting. Reminded the committee that Mariners' Mile has two mixed use districts. Adequacy of density as defined in the plan to allow viable residential projects. September 3rd will present a final analysis.

Key difference between bay side and inland side – vertical on bay side, horizontal or vertical on inland side. Coastal commission has previously not permitted horizontal mixed use on the bay side.

A discussion on permitted heights in this area resulted in Gardner requested a visual showing what it would look like. Tescher added that he would discuss The Planning Center|DC&E's ability to do this with staff.

c. Harbor Day School

Staff recommendation to increase the floor area from .35 to .4. Because school traffic impact is determined by student enrollment, an additional 72 students have been included in the traffic study for planning purposes. However, the school would need to amend their existing Conditional Use Permit to include the increase of

students. This would be done under a separate process and would require a hearing by the appropriate decision-making body with project-level impact analysis.

d. Buena Vista Open Space

Ramirez explained this peculiar issue of the Buena Vista right-of-way being located between privately-owned, open space parcels on the bayside and single-family parcels on the other side. There is a city policy that permits what can and cannot be built within the right-of-way and the open space parcels. The residents questioned whether the open space designation was appropriate.

Staff recommended no change to the land use designation given the desire to maintain the bay side lots as open areas to allow public views to the bay. Watkins agreed with staff recommendation to leave as is. These properties are deed restricted and cannot be sold off independently of the adjacent properties zoned RS-D.

e. Airport Area

Tescher summarized the analysis of this area to date and indicated that this area will be presented in detail on September 3rd.

V. Next Steps

An economic analysis for Mariners' Mile and the Airport Area will be discussed on September 3rd.

VI. Public Comment on Non-Agendized Items

Representatives from Buena Vista brought up additional concerns with the zoning of the lots and the street easement, and the deed restrictions. Chair Selich said that the easement issues were not appropriate for the General Plan discussion. Ramirez offered to meet with these homeowners and Public Works (Dave Webb) to further discuss these issues.

George Schroeder, referring to Lido Village, does not want to see the CC 0.5 FAR (pink) area included in the "grandfathered" policy. Uses previously used public parking at City Hall site, which will be eliminated with hotel proposal. He described parking concerns related to under parked properties.

Jim Mosher commented that Lido Marina Village is overbuilt. It is a harbor area, where you can't see the harbor. He would encourage additional open space and view corridors policies.

Douglas Lasard asked about the status of the Congregate Care discussion. Mulvihill explained that the City did not see changes to congregate care as a General Plan issue, but could be addressed through the Zoning Code which would occur after the General Plan. Ramirez indicated that he would follow up.

VII. Adjournment *Next Meeting Date: September 3, 2013, at 3:30 p.m.*

The agenda for the Regular Meeting was posted on August 13, 2013, at 2:30 p.m., on the City Hall Electronic Bulletin Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attachment No. 2

Economic Analysis for Airport Area

ATTACHMENT 2

THE PLANNING CENTER DC&E

Memorandum

DATE	August 28, 2013
TO	City of Newport Beach Kimberly Brandt, Community Development Director Brenda Wisneski, Deputy Community Development Director Gregg Ramirez, Senior Planner
FROM	Woody Tescher, Project Manager Steve Gunnells, Chief Economist
SUBJECT	DRAFT Financial Feasibility Discussion—Airport Area

This memo provides an overview of financial feasibility issues associated with possible redevelopment in the airport area. This memo builds on information discussed in a separate memo regarding the financial feasibility analysis in Mariners' Mile.

Background

The basic question is whether or not it is financially feasible for developers to acquire property with existing industrial, office, or retail uses and to redevelop the property with residential uses. The answer to this question may be considered as one among many factors influencing whether or not the City should plan for additional residential uses in this area.

The City recently approved the Uptown Newport project. This project would demolish approximately 447,000 square feet of industrial buildings and redevelop the site with 1,244 residential units and 11,500 square feet of retail building area. One would assume that this is financially feasible if the developer is going through the process to entitle the proposed development. But what about other sites in the airport area, especially sites with office or retail uses? Would it be financially feasible to redevelop those sites?

Financial Feasibility, Generally

In a typical development project, the developer invests a certain amount and finances the rest of the project. The financial feasibility of the proposed project is usually measured by the internal rate of return (IRR). This is the return on the amount invested by the developer, and a typical threshold is a 15 percent IRR. For a given project and its final sales value, the more the developer can borrow the less the developer has to invest. Because lending rates are substantially lower than 15 percent, paying for more of the development with borrowed money rather than the developer's cash investment improves the overall IRR.

Typically banks may lend about 50 percent of the cost of land acquisition and 75 to 80 percent of the cost of construction. This differential means that the cost of the land becomes the most important driver in determining financial feasibility. Because the developer pays a higher portion of the land acquisition cost than construction costs, a small change in land costs affects the IRR more than the same change in construction cost.

Lease Rates and Land Valuation

Capitalization rates are determined by dividing the annual rental income for a property by its sales value. Real estate brokers average this data over a number of sales to determine a general capitalization rate. This rate varies over time. In the last upswing in the real estate market, capitalization rates decreased to 6 percent, but a more normal rate is about 8 percent.

What is different across different properties is the revenue stream that is being generated. Industrial properties tend to generate the lowest rent per square foot, and current rates are about $9 per square foot per year. Offices tend to generate more than industrial and less than retail, and current rates are about $26 per square foot per year. Retail usually brings in the highest rent, and current lease rates are about $40 per square foot per year.

Nevertheless, for a generic one-acre site built out at a .25 FAR (10,890 square feet of building area), the expected rents would be: Industrial $98,010; Office $283,140; and Retail $436,000. At an 8 percent capitalization rate, the property value for each use would be: Industrial, $1,225,000; Office, $3,539,000; and Retail $5,445,000.

One should note, however, that offices, unlike single use industrial and retail, can be intensified on a site by adding additional stories. Thus, multistory office buildings typically generate higher rents per acre than single use retail and industrial. For the generic one-acre site example, a two-story office building would generate rents of $566,000 and the site's value would be $7,709,000.

Residual Land Value for Residential Development

Keeping with the generic one-acre site, a residential development of that site with 25 for-sale condos might generate a residual land value of $4.5 million. The residual land value is the amount a developer could afford to pay for the site and earn a 15 percent IRR.

This development would therefore be financially feasible if the site were currently used for industrial or single-story office. It would not, however, be financially feasible if the site were currently used for retail. Also, if the site had a two-story office building, the residential redevelopment would not be feasible.

If the site were developed more intensely, yielding 50 residential units with structured parking, the residual land value would increase to $7.2 million. This redevelopment would be feasible for existing one-story industrial, office, and retail sites, but would still not be feasible for sites with multi-story buildings.

Demand for Residential Development

The other part of the equation for this issue is whether or not there is demand for more residential development in the Airport Area. An analysis of growth patterns in the airport area and the subregion within five-miles of the airport area suggests that there is a potential multifamily market of 655 new households (owners and renters) for the airport area over the next five years. Depending on the nature of the products and pricing, the demand could be higher.

Conclusion

The analysis shows that in general terms, residential redevelopment would be financially feasible for many industrial sites and one-story office building sites. However, moderate density (25 du/acre) residential development would not be affordable on sites that are currently used for retail or multi-story office buildings.

Nevertheless, there is demand for more multifamily residential development in the airport area. To the degree that the City desires to capture some of the demand, it would likely occur on industrial

and one-story office properties with projects in the range of 25 dwelling units per acre. More sites would be feasible for redevelopment with projects at 50 dwelling units per acre, but still, most multi-story sites would not.

ATTACHMENT 3

THE PLANNING CENTER DC&E

Memorandum

DATE	August 29, 2013
TO	City of Newport Beach Kimberly Brandt, Community Development Director Brenda Wisneski, Deputy Community Development Director Gregg Ramirez, Senior Planner
FROM	Woody Tescher, Project Manager Steve Gunnells, Chief Economist
SUBJECT	Financial Feasibility Analysis, Mariners' Mile

This memo summarizes the analysis of the financial feasibility of three illustrative redevelopment scenarios for three opportunity sites along Pacific Coast Highway (PCH) in the Mariners' Mile area of Newport Beach. The memo presents the results in seven analysis comments, followed by a conclusions section.

ANALYSIS COMMENTS

1. Purpose. The financial feasibility analysis is intended to determine whether or not private sector developers could theoretically purchase a property, develop it according to existing development standards, and generate a sufficient return on investment given current and expected market conditions. The community may use the results of financial feasibility analyses as one rationale among many for evaluating whether or not to modify development standards, such as height, Floor Area Ratios (FAR), or parking requirements.

   The financial feasibility analysis represents the conditions facing a typical developer. However, individual developers may be able to obtain more or less favorable lending, investment, and cost terms. Thus some developers may be able to develop a site even though an analysis suggests that it is not feasible, and similarly some developers may not be able to develop a site that the analysis indicates is feasible. Nevertheless, the analysis represents that financial and market realities that most developers would face.

2. Financial Feasibility Analysis Generally. The financial feasibility of a possible development is analyzed using a development pro forma. A pro forma calculates the costs of development and the revenue flow generated by the final development, adjusting these for the time value of money and the costs to borrow money. The pro forma determines the amount of equity investment (i.e. actual cash) required of the developer and the rate of return on that investment. The pro forma then estimates the financial feasibility of a development project, indicating whether or not the rate of return is sufficiently high to attract a developer to invest in that project. Some key financial-feasibility concepts are discussed in the following paragraphs.

A. **Lease Rates**. The rents paid by office, retail, and residential tenants are the income source that repays the development costs. Business tenants are willing to pay some base level of rent just for the building space, and then some premium rent if the location will generate more revenues for their business. Similarly, residential tenants pay some base level of rent just for the building space, and then pay some amount of premium if the housing units provide amenities and location advantages.

   During the recession and first few years of economic recovery, market conditions put downward pressure on retail and office lease rates, even in the coastal areas. As the regional and national economies continue to improve, lease rates should continue to rise. Construction costs, however, will also likely rise as the economy grows and the real estate development industry recovers. Thus any benefits of rising lease rates would be offset by rising construction cost.

   In contrast, market conditions have put upward pressure on residential lease rates, especially for multifamily housing, since the recession. These market conditions include the conversion of millions of households across the country from owners to renters. Equally as important though, the expected impact of the echo boom generation moving out of their parents' homes and into their first housing has and will continue to drive demand for multifamily housing construction for the next five to ten years.

B. **Return on Investment**. In a typical development processes, the development firm puts up some amount of its own money, while bringing in an outside investor for the majority of the required equity investment. The developer obtains a construction loan, which might cover most of the development costs and some of the land acquisition costs (with the equity investment covering the remainder of the costs). Upon completion of the project, the developer takes out permanent financing and pays off the construction loan. Typically, the developer would then hold the property for a short period, maybe three to five years, and, with a leasing track record, sell the property. Upon the sale of the property the developer pays off the permanent loan. What is left over after that final payment represents the developer's final return on the initial investment.

   Developers and investors most often use the internal rate of return (IRR) to measure the expected return on their investments and to decide whether or not to invest in a particular project. During the recession and early in the recovery, IRRs of 20 to 25 percent became necessary to attract equity investment. As the economic continues to grow and the real estate development industry recovers, a return to a more normal IRR of 15 percent can be expected.

C. **Residual Land Value**. Residual land value is the amount the developer can afford to pay to acquire a property, given the IRR goal and the amount of development the site can accommodate with its size, shape, and zoning requirements. Because the equity required for a development is directly related to the cost to acquire land and because this cost occurs at the beginning of the project, the land acquisition cost is the one factor that most immediately influences the rate of return.

   With an IRR target of 15 percent, the pro forma analysis calculates the remaining variable, the residual land value. A feasibility gap – the difference between the

residual land value and the estimated land acquisition cost for each opportunity site – exists when the residual land value is less than the cost to acquire the site. A gap represents the level of subsidy required for redevelopment to occur under near-term market conditions. The feasibility gap percentage, the residual land value expressed as a percentage of the estimated market value, indicates how far off the proposed development is from being feasible under market conditions. In contrast, a feasibility surplus exists when the residual land value exceeds the cost to acquire the site. A surplus would represent the additional return the developer can expect, the ability to provide additional investment in the project for public benefit, or the additional payment for land acquisition that might be necessary to induce a hesitant seller to part with their property.

3. Pro Forma Summaries Generally. The development pro forma is summarized for three opportunity sites in the following sections. A sample pro forma summary is presented and explained below. Full pro forma results are provided in the Appendix.

Development Cost Summary	
(1)	Total Development Cost
(2)	Amount Financed
(3)	Equity Required
Financial Feasibility Summary	
(4)	Residual Land Value @ 15% IRR
(5)	Residual Land Value per Acre
(6)	Estimated Property Value Five Years After Construction

A. Development Cost Summary. This section describes the cost to develop the project. If the project is developed as for sale, then these costs reflect the total cost through the sale of units. If the project is s developed for lease, then these costs reflect the total costs through the lease up of units. Costs of ongoing operations and maintenance until the project is sold, assumed to be five years after construction, are not included in the development cost summary but are reflected in the overall financial feasibility. All costs are detailed in the full pro forma results in the Appendix.

(1) Total Development Cost. This datum indicates the total cost to develop the project. It includes land acquisition, design and engineering, site preparation, construction, and financing.

(2) Amount Financed. This datum indicates the portion of the total development cost that would likely be financed through a construction loan. Generally, lending would be available for 50 to 60 percent of land acquisition costs and 70 to 80 percent of construction costs. Because Newport Beach, and Mariners Mile in particular, is a lucrative real estate development market, the analysis assumes that developers would likely be

able to finance are somewhat larger share of the costs: 65 to 75 percent of the land acquisition costs and 80 percent of construction costs.

(3) Equity Required. The difference between the total development cost and the amount financed is the equity investment required of the developer. The project's financial feasibility, measured by the IRR, is based on this level of equity investment.

B. **Financial Feasibility Summary.** This section describes each project's financial feasibility. If the project is developed for sale, the analysis assumes the return from the ultimate sales price of the project, including taxes and sales commission. If the project were to be developed for lease, the analysis assumes that the project would be sold after five years of operation and the financial analysis includes the return from the project's ultimate sales price plus the profits over five years of operations.

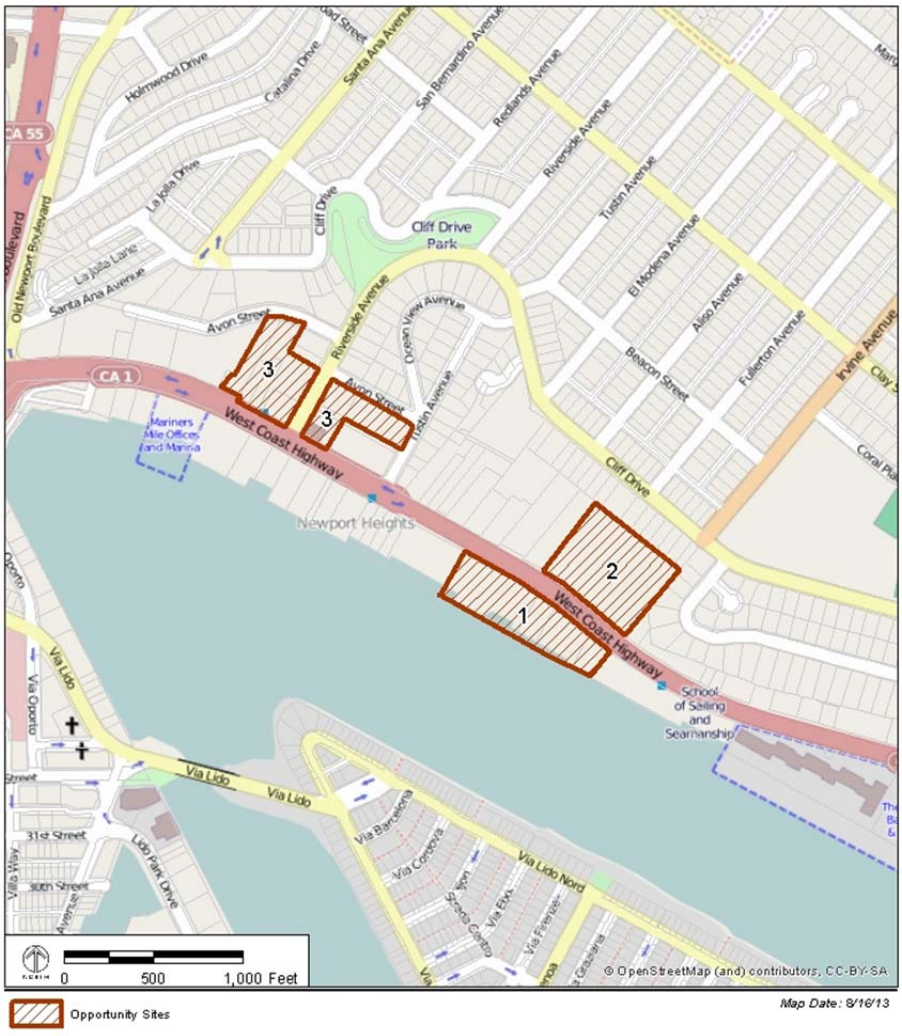
(4) Residual Land Value @ 15% IRR. This datum indicates the amount that a developer could afford to pay for the land, excluding sales commission, due diligence, etc., and earn a 15% IRR on the required equity investment.

(5) Residual Land Value per Acre. This datum simply express the residual land value per acre to allow easier comparisons across the three sites.

(6) Estimated Property Value Five Years After Construction. This datum is estimated value of the site five years after it is constructed. The analysis assumes that each of the three sites will be developed for rental and sold after five years of leasing. The analysis projects the value for which the property would be sold.

4. **Specific Analysis Sites**. The analyses summarized in this memo were conducted for three specific sites in the Mariners' Mile area. Figure 1 shows the location of the three sites.

Figure 1: Location of Sites Analyzed



5. Site 1 Summary. This is a 4.1-acre site consisting of four parcels lining the Newport Bay waterfront. The site is currently used for marine-serving businesses. The development scenario analyzed would completely redevelop the site with: 2 two-story retail/restaurant buildings; 1 three-story retail/restaurant building; and 2 three-story residential buildings (townhouses over parking). The analysis assumes that the residential buildings would be built for sale, and the retail buildings would be leased for five years and then sold. Current marine businesses on the site could be tenants in the newly developed buildings.

   The retail uses would be surface parked, and the residential buildings would have ground floor parking. The development scenario includes a public pedestrian promenade along the waterfront. The project would provide 24 total townhouse units, with about 1,800 square feet of living space, and 68 parking spaces on the ground floor of the two residential buildings. The retail/restaurant component would provide 46,395 square feet, served by 186 uncovered surface parking spaces. The total building footprint would be 43,410 square

feet, representing 25 percent of the site area. In addition to the pedestrian promenade, there would be 7,140 square feet of common open space.

This development scenario maximizes the allowable number of residential units but does not maximize the residential floor area allowable under current standards. The development scenario does not maximize the amount of retail building square footage. Accommodating the required parking eliminates the ability to make full use of the development intensity allowed under current regulation.

The pro forma estimates the total development costs for this scenario to be $51,740,000, including land acquisition cost. The analysis assumes that $40,090,000 would be financed, leaving a required equity investment of $11,650,000. To obtain a 15 percent IRR on the required equity investment a developer could afford to pay $29,350,000 for the site, or about $7,225,000 per acre. Assuming that the fair market value of the site would be $12 million per acre, the development scenario has a feasibility gap (the difference between the residual land value and the estimated fair market cost to acquire the site) of $19.4 million.

Table 1: Site 1 Development Pro Forma Summary

Development Cost Summary		
(1)	Total Development Cost	$ 54,170,000
(2)	Amount Financed	$ 40,090,000
(3)	Equity Required	$ 11,650,000
Financial Feasibility Summary		
(4)	Residual Land Value @ 15% IRR	$ 29,350,000
(5)	Residual Land Value per Acre	$ 7,225,000
(6)	Estimated Property Value Five Years After Construction (Retail buildings and property)	$ 28,795,000

If development standards were modified to allow twice as many residential units, a total of 48 instead of 24, without any increase in the required parking, the development could generate a residual land value of about $12 million per acre with a 15 percent IRR. Alternatively, an above ground parking structure could allow the site to maximize the permitted retail intensity. However, a retail market analysis should be conducted to determine whether or not the market could support the maximum allowable amount of retail building space before exploring this development alternative further.

6. Site 2 Summary. This is a relatively square shaped 4.4-acre site, with slopes at the rear of the property (opposite from PCH). Existing uses include a boat sales and repair business. An initial analysis of redeveloping the site with two-story buildings that meet the current development standards provide not to be financially feasible. With the height limitation, the residual land value would be $3 million per acre.

   The final development scenario analyzed would have the site developed with 2 one-story retail buildings fronting PCH and 2 four-story multifamily residential buildings behind the retail buildings. The analysis assumes that the site would be developed as a single unified

project. The buildings would be leased, and, after five years, would be sold for about $66 million.

The two retail buildings would contain 20,240 square feet of building space. The scenario would provide 82 surface parking spaces for the retail uses. The residential buildings would include 112 townhouses. The development would provide 242 covered or garage parking spaces and 38 surface parking spaces for residents and guests. The townhouses would average 1,200 square feet in size. The overall development would have an FAR of 0.97 and provide 8,400 square feet of common open space.

The development scenario provides almost the maximum number of residential units (117). However, the two buildings would be four stories, exceeding the maximum height of two stories. The 20,240 square feet of retail is only about 21 percent of the maximum allowable floor area. To provide the required number of parking spaces, additional retail building space is not possible without a parking structure.

The pro forma estimates the total development cost to be $50,660,000, of which the developer would likely finance $37,270,000. The required equity investment would be $13,390,000. At a 15 percent IRR, the development scenario would generate a residual land value of $5,240,000. This might be somewhat low, but it is probably in the ball park where tweaking of the development scenario might achieve something closer to a $6 million per acre residual land value.

Table 2: Site 2 Development Pro Forma Summary

Development Cost Summary		
(1)	Total Development Cost	$50,660,000
(2)	Amount Financed	$ 37,270,000
(3)	Equity Required	$ 13,390,000
Financial Feasibility Summary		
(4)	Residual Land Value @ 15% IRR	$ 23,677,000
(5)	Residual Land Value per Acre	$ 5,240,000
(6)	Estimated Property Value Five Years After Construction	$ 66,356,000

7. Site 3 Summary. This is a 5.3-acre site that lies on both sides of Riverside Avenue. The existing uses include a mix of retail businesses and a post office. An initial analysis of developing the site with two-story buildings provide not to be financially feasible. With the current height limitation, the residual land value would be $4.8 million per acre.

   The final development scenario analyzed would provide on the west side:

   + A three-story parking structure with 384 spaces (for use of buildings on both sides of Riverside) and 4,326 of ground-floor retail fronting Riverside.
   + An L-shaped mixed use building fronting both Riverside and PCH with 28,650 square feet of ground-floor retail and two stories of residential with 60 units averaging 1,180 square feet in size.

- 120 surface parking spaces with a green roof that provides 22,020 square feet of open space that would likely be private for the residential units in the project.

The portion of the on the east side of Riverside Avenue would provide:

- Two mixed use buildings with a total 19,850 square feet of ground floor retail and 21 residential units averaging 950 square feet in size.
- 2 three-story buildings with a total of 40 residential units averaging 1,682 square feet in size.
- 63 covered parking spaces for the residents.

Current development standards would allow a maximum of approximately 142 residential dwelling units. The development scenario would provide 121 units, not quite maximizing the allowable density. Maximizing the allowable density would require and additional story on at least one of the buildings and an additional level on the parking structure. Because this development scenario was financially feasible without the additional story, the analysis did not proceed further in order to maximize the allowable density.

As analyzed, however, the scenario would exceed the maximum height limitation of two stories with all of the buildings being three stories in height. The maximum amount of retail allowed is 95,600 square feet. The development scenario provides 52,800 square feet of retail, about 55 percent of the allowable maximum. As with the other sites, providing the required amount of parking inhibits the ability to maximize the development potential of site 3.

The analysis estimates the total development cost to be $77,490,000, of which the development would finance about 74 percent, or $57,560,000. The equity investment required would be $19,930,000. To achieve a 15 percent IRR, the residual land value would be $32,648,000, or about $6,208.000 per acre. This is probably a reasonable residual land value, but it is achieved by exceeding the height requirements.

Table 3: Site 3 Development Pro Forma Summary

Development Cost Summary		
(1)	Total Development Cost	$ 77,490,000
(2)	Amount Financed	$ 57,560,000
(3)	Equity Required	$ 19,930,000
Financial Feasibility Summary		
(4)	Residual Land Value @ 15% IRR	$ 32,648,000
(5)	Residual Land Value per Acre	$ 6,208,000
(6)	Estimated Property Value Five Years After Construction	$ 101,645,000

CONCLUSIONS

The financial feasibility analysis provides two important conclusions for the City to consider. First and foremost, the current development standards, including the two-story height restriction and

minimum parking requirements, would not allow new development to provide the maximum permitted density and intensity of residential and retail development. The current standards preclude financially feasible redevelopment.

Second, the analysis shows that allowing three of four story heights generally makes redevelopment financially feasible, although developing the maximum permitted densities and intensities would not necessarily be feasible. Achieving the maximum allowable densities would require some combination of reduced parking requirements and further increases in the height limit. Even with a relaxation of height limits, redevelopment on the waterfront side of PCH may still not be financially feasible.

Whether or not these two conclusions matter depends on the community's vision for Mariners' Mile. If the goal is to provide feasible development options to those existing property owners desiring to realize greater value out of their property, providing flexibility in heights may be sufficient. On the other hand, if the goal is to provide a regulatory incentive to encourage redevelopment that provides public benefits, new development, and increased economic activity, the City should consider a range of regulatory changes that could include height limits, parking requirements, and possibly the required mix of uses (i.e. percentage of a site that can be residential or retail).